

Message Text

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ACTION NEA-10

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R 211110Z APR 77
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC 2197
USDOC WASHDC

UNCLAS SECTION 1 OF 2 TEHRAN 3514

E.O. 11652: N/A
TAGS: BEXP ETRD IR
SUBJ: U.S.-IRAN TRADE STATISTICS

REF STATE 77672, 76 TEHRAN 10132

1. BEGIN SUMMARY: REDUCTION IN TWO-MONTH (JANUARY/FEBRUARY) FIGURES OVER SAME PERIOD LAST YEAR FOR U.S. EXPORTS TO IRAN ATTRIBUTABLE BOTH TO GENERAL ECONOMIC PICTURE AND TO FACTORS SPECIFICALLY RELATING TO U.S. PRODUCTS. DECLINE APPEARS TO BE CONFINED TO CONSUMER AND CAPITAL GOODS AS AGRICULTURAL PRODUCTS HELD THEIR OWN OR INCREASED (RICE). END SUMMARY.

2. JANUARY/FEBRUARY 1977 FIGURES REFLECT PURCHASING DECISIONS RANGING FROM 6-18 MONTHS PRIOR. IN GENERAL, SPATE OF ORDERS IN LATE 1974 AND 1975 WERE RESULT OF SOMEWHAT UNFOCUSED AND UNEVALUATED DEMAND. MANY ORDERS WERE GEARED TOWARD MAJOR PROJECTS WHICH EITHER HAVE NOT MATERIALIZED OR HAVE BEEN REDUCED IN SCOPE AND/OR STRETCHED OUT. CONSEQUENTLY, LARGE INVENTORIES IN SOME AREAS WERE BUILT UP WHICH IMPORTERS AND ENDUSERS REDUCED BEFORE REORDERING. CERTAIN PRODUCTS WHICH ARE IN CONTINUING HIGH DEMAND FOR THE CONSTRUCTION TRADE; E.G., LOW-TECHNOLOGY, HIGH SHIPPING VOLUME ITEMS ARE PRODUCTS IN WHICH THE U.S. IS NOT COMPETITIVE, MAINLY DUE TO TRANSPORTATION COSTS.

3. IMPORTS IN 1976 ALSO REFLECT FLOOD OF CONSUMER-ORIENTED
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PRODUCTS BROUGHT IN TO SATISFY STRONG EFFECTIVE DEMAND. REDUCTION IN PROFIT-MARGIN (PRICE CONTROLS INSTITUTED MID-1975), INFLATION WHICH MAY HAVE CUT INTO CONSUMER PURCHASING POWER AND EXPECTATIONS IN SHORT-RUN AND CAUSED TEMPORARY SATURATION, AND GOVERNMENT EDHORTATIONS TO REDUCE VOLUME OF CONSUMER IMPORTS RELATIVE TO TOTAL IMPORT STRUCTURE HAVE ALL CONTRIBUTED TO LEVEL OFF IMPORTS OF SOME CONSUMER-ORIENTED GOODS.

4. IN A NUMBER OF AREAS (SUCH AS MEDICAL DIAGNOSTIC EQUIPMENT, AUDIO-VISUAL HARDWARE, FOR EXAMPLE), THE FIRST ROUND OF EXPECTATIONS MAY HAVE RESULTED IN LARGE ONE-TIME SALES IN ANTICIPATION OF SUPPLYING NEW FACILITIES OR PROGRAMS WHICH EITHER HAVE NOT YET FULLY MATERIALIZED OR FOR WHICH A PERIOD OF USE, TRAINING AND EVALUATION OF THE EQUIPMENT LIES AHEAD BEFORE NEW DEMAND WILL BE PRESENT (ANYWHERE FROM 18-60 MONTHS DEPENDING ON PROGRESS OF NEW PROGRAMS).

5. TWO PROBLEMS WHICH HAVE PLAGUED U.S. EXPORT EFFORTS IN THE PAST CONTINUE: (A) SERVICE CAPABILITY FOR SOME EQUIPMENT HAS BEEN NON-EXISTENT OR MARGINAL. BUYERS WHO WERE DISPOSED TOWARD AMERICAN PRODUCTS ARE NOW BEGINNING TO LOOK AT ALTERNATIVES, BELIEVING INCREASINGLY THAT ALTHOUGH EUROPEAN PRODUCTS MAY NOT BE BETTER, SERVICING COST OR AVAILABILITY IS MORE ADVANTAGEOUS. (B) U.S. FIRMS ARE CRITICIZED BY BOTH GOVERNMENT AND PRIVATE SECTOR FOR NOT FOLLOWING UP OPPORTUNITIES AND IN NOT EXPLORING THE MARKET FULLY; E.G., WILLINGNESS TO TAKE FIELD TRIPS OUTSIDE OF TEHRAN. IN GENERAL, AMERICAN BUSINESSMEN EITHER DO NOT HAVE THE DESIRE OR THE ADAPTABILITY TO DEVOTE THE TIME AND RESOURCES TO PURSUIT OF THE MARKET THAT COUNTERPART GERMAN, FRENCH, BRITISH, ITALIAN AND JAPANESE BUSINESSMEN HABITUALLY EXPEND.

6. AVAILABILITY OF CREDIT IS ALSO A CONTINUING PROBLEM. IN GENERAL, IRANIANS BELIEVE THAT OBTAINING FINANCING ASSISTANCE IS BOTH CHEAPER AND LESS PLAGUED WITH RED TAPE FROM EUROPEAN AND JAPANESE SOURCES THAN FROM U.S. SOURCES (E.G., SEE TEHRAN A-42).

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7. MAINTAINING OUR MARKET SHARE IN THE FUTURE WILL BECOME INCREASINGLY DIFFICULT BECAUSE OF THE ESCALATING COST OF PLACING AMERICAN BUSINESSMEN OVERSEAS. THE TAX REFORM LAW OF 1976 (REPORTED PREVIOUSLY IN TEHRAN 2399, 76-11395, 76-12132), SOCIAL SECURITY TAX LIABILITY IN IRAN, COUPLED WITH THE HIGH COST OF LIVING IN IRAN IS CAUSING MAJOR COMPANIES, PARTICULARLY THOSE IN THE CONSULTING/ENGINEERING/CONTRACTING/SERVICE MAINTENANCE AREAS TO RE-EVALUATE THEIR PROSPECTS.

8. IN ANY EVENT, THE COST OF PROVIDING AMERICAN SERVICES AND MANAGERIAL SKILLS OVERSEAS WILL COST COMPANIES MORE, A RESULT WHICH THEY WILL HANDLE IN ONE OF THREE WAYS: PASSING ON THE INCREASED COST TO THE CLIENT; DILUTING EXPATRIATE PARTICIPATION IN A VENTURE OR CONTRACT; OR SUBSTITUTING LESS EXPENSIVE THIRD-COUNTRY NATIONALS FOR AMERICAN EXPATRIATES. WHICHEVER OF THE THREE PATHS IS FOLLOWED, THE EFFECT WILL BE DETRIMENTAL: ATTEMPTING TO PASS ON THE COSTS TO THE CLIENT IS LIKELY TO PRICE U.S. FIRMS OUT OF THE MARKET WITH IRANIANS WHO ARE INCREASINGLY COST-CONSCIOUS ON MAJOR PROJECTS; DILUTING EXPATRIATE PARTICIPATION INCREASES THE RISK OF BEING UNABLE TO FULFILL A CONTRACT ACCORDING TO ACCEPTABLE COST, TIME LIMIT AND QUALITY STANDARDS, WHICH IN TURN AFFECTS THE FUTURE MARKET FOR U.S. TECHNOLOGY; AND HIRING THIRD-COUNTRY NATIONALS DECREASES THE NATURAL ORIENTATION TOWARD SPECIFYING AMERICAN PRODUCTS IN MAJOR PROJECTS AS WELL AS DIMINISHES U.S. INVISIBLE RECEIPTS.

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9. COMMENT: AS OBSERVED DURING A SIMILAR EXCHANGE LAST YEAR (76 TEHRAN 10132), USDOC SHOULD HAVE ACCESS TO OECD TRADE DATA AND WITH THEM AND U.S. DATA BY COMMODITY AND VALUE, UNAVAILABLE HERE, BETTER IDENTIFY THOSE AREAS IN WHICH U.S. EXPORTS HAVE DECLINED SINCE JANUARY/FEBRUARY 1976, COMPETITIVE LOSSES AND GAINS AND ANY SHIFT IN THE PROFILE OF U.S. EXPORTS. EMBASSY WOULD BE MOST INTERESTED IN OBSERVATIONS FROM SUCH AN ANALYSIS.
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